

Sustainability

ESG Investment Policy

Requirements, Structure and Implementation

1. Investment Philosophy

The sustainable investment philosophy aims to strike a balance between risk-return-optimized portfolio construction and the implementation of sustainability principles.

In doing so, the current state of the CAT bond market in terms of transparency is taken into account and aligned with the required level of transparency as well as the desired criteria for the underlying insured business. This process is dynamic and evolves in line with improvements in information disclosure by CAT bond sponsors.

In the area of “insurance bonds,” investments are made in subordinated regulatory capital (Tier 1 and Tier 2) of insurance companies. Here, the issuer is the primary focus of the ESG analysis.

2. Investment Objective

Using an appropriate methodology, the non-transparent portion that may potentially conflict with the exclusion criteria is limited to below 5% of the total portfolio value for both CAT bonds and insurance bonds.

3. Investment Guidelines

The investment guidelines in terms of sustainability vary for each individual investment portfolio and are based on ESG exclusion criteria to be defined. The so-called SDG criteria are not yet considered in these investment guidelines.

4. ESG Exclusion Criteria

The following is a list of exclusion criteria applied in portfolio management. There are two levels of exclusion criteria:

4.1. Norm-Based Exclusion Criteria

Exclusion Criteria Relating to Critical Industries/Sectors

Weapons

- 4.1.1. Manufacturers of controversial weapons and critical components (cluster bombs, ABC weapons of mass destruction, anti-personnel mines) with a 0% revenue limit
- 4.1.2. Manufacturers of conventional weapons/armaments and critical components (with a 5% revenue limit).

Nuclear Energy

- 4.1.3. Companies involved in uranium mining (with a 5% revenue limit)
- 4.1.4. Companies whose power generation is based on nuclear energy (with a 5% revenue limit)
- 4.1.5. Operators of nuclear power plants as well as manufacturers of key components of nuclear power plants (with a 5% revenue limit).

Fossil Energy Sources

- 4.1.6. Companies involved in coal mining (with a 5% revenue limit).
- 4.1.7. Companies whose power generation is based on coal (with a 5% revenue limit)
- 4.1.8. Companies involved in the extraction and/or processing of oil sands (with a 5% revenue limit).
- 4.1.9. Companies which produce or use fracking equipment (with a 5% revenue limit).

Other Industries

- 4.1.10. Companies which produce tobacco (with a 5% revenue limit)

Norm-based Criteria

Conformity to the ten core principles of the UN Global Compact: They usually refer to severe and/or systematic violations of the ten core principals which are divided into four categories:

- Human rights: Severe and/or systematic violations of human rights. The human rights are defined in the UN Universal Declaration of Human Rights and in the Charter of Fundamental Rights of the European Union.
- Labour rights: Severe and/or systematic violations of the ILO Core Labour Standards and their four fundamental principles (freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; the elimination of discrimination in respect of employment and occupation).
- Environmental protection: Severe and systematic violations of environment protection legislation and/or massive environmental destruction.
- Corruption and bribery: Severe and/or systemic corruption and/or bribery.

In specific, the ten principles are as follows:

- 4.1.11. Businesses should support and respect the protection of internationally proclaimed human rights.
- 4.1.12. Business should make sure that they are not complicit in human rights abuses.
- 4.1.13. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- 4.1.14. Businesses should uphold the elimination of all forms of forced and compulsory labour.
- 4.1.15. Businesses should uphold the effective abolition of child labour.
- 4.1.16. Businesses should uphold the elimination of discrimination in respect of employment and occupation.
- 4.1.17. Businesses should support a precautionary approach to environmental challenges.
- 4.1.18. Businesses should undertake initiatives to promote greater environmental responsibility.
- 4.1.19. Businesses should encourage the development and diffusion of environmentally friendly technologies.
- 4.1.20. Businesses should work against corruption in all its forms, including extortion and bribery.

Criteria for the Exclusion of Countries

At fund level, the liquidity management and the investment in bonds respectively is defined in the fund prospectus. This basically means all bonds and short-term money market investments such as money market funds, fiduciary investments and specifically cash positions held by the fund directly.

The following indices and rankings are the basis for the exclusion of countries:

- 4.1.21. Unfree countries: Violations of human rights (permanent and systematic) measured by the Aggregate Score of the Freedom in the World report by Freedom House: (www.freedomhouse.org) of ≤ 80
- 4.1.22. No ratification of the Convention on Biological Diversity (United Nations Environment Programme): www.cbd.int/
- 4.1.23. Countries not legally bound by the Paris Agreement (COP 21)
- 4.1.24. Corruption measured by the Corruption Perceptions Index of Transparency International (www.transparency.org) with a CPI score of < 35
- 4.1.25. Countries not legally bound by the Non-Proliferation Treaty (UN Office for Disarmament Affairs): www.un.org/disarmament/wmd/nuclear/npt/

4.2. Further Exclusion Criteria

These are exclusion criteria which go beyond the norm-based criteria and are subject to the business policy. They refer to company and country levels.

4.2.1 Company Level

- Operational risks on the financial side
- Credit risks
- Pornography
- Gambling

4.2.2 Country Level

Countries with the following characteristics are excluded:

- Presence of the death penalty (execution) according to Amnesty International

- Lack of religious freedom (suppression of freedom of worship) measured by the Government Restriction Index ≤ 2.4 of the Pew Forum (<https://www.pewforum.org>)
- Totalitarian regimes (suppression of democratic aspirations) measured by the Electoral Democracy Status list of Freedom House (freedomhouse.org) with a value of “no”
- Freedom of the press (suppression of freedom of opinion) measured by the Press Freedom Score of Freedom House (freedomhouse.org) with a value of > 50

4.2.3 Distinction between “natural disasters” and “man-made disasters”

Investments in CAT bonds covering the risk of non-natural disasters require the approval of the investment committee before the investment and an explicit evaluation with regard to ESG-relevant factors. An individual assessment is mandatory as these risks feature different characteristics and cause-effect-relations and therefore require a separate sustainability evaluation which is documented and subject to an exchange with relevant stakeholders.

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